



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

July 1, 2009

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

## SACRAMENTO UPDATE

This memorandum contains a report on the State Budget actions occurring yesterday and the Governor's declaration of a State fiscal emergency.

### State Budget Actions

The Senate met once again yesterday to debate and vote on three budget-related bills in a last minute effort to avoid the issuance of registered warrants (IOUs) by the State Controller on July 2, 2009, as a result of the State's cash flow crisis. In a final late-night vote, the measures failed to receive the two-thirds vote required to pass. Senator Denise Ducheny pointed out that the failure to address the cash flow crisis before the midnight deadline would result in approximately \$5 billion in lost savings coupled with an additional \$3 billion obligation to fund Proposition 98 in FY 2009-10. Senator Ducheny also noted that the \$8 billion in budget solutions will be lost in the out years, and the State will ultimately be required to pay schools that amount beginning in FY 2011-12.

The Senate then convened in the Third Extraordinary Session to take up budget measures to address most of the \$24.3 billion State Budget deficit by a simple majority vote. ABX3 10 (Evans) was amended to reduce State General Fund expenditures by \$11 billion in FY 2009-10, and passed the Senate by a majority-vote of 22 to 15.

*"To Enrich Lives Through Effective And Caring Service"*

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This bill was sent to the Assembly for concurrence in Senate amendments. ABX3 19 (Evans) was amended to accelerate State revenues by increasing income tax withholding and taxing internet-based sales. This measure passed the Senate by a majority-vote of 24 to 14, and was sent to the Assembly for concurrence in Senate amendments.

The Senate also passed trailer bills which were approved by the Assembly on June 28, 2009, as reported in the June 28, 2009 Sacramento Update.

In addition, the Governor vetoed SBX3 16 (Ducheny) and SBX3 17 (Ducheny). As reported in the June 29, 2009 Sacramento Update, SBX3 16 proposed \$7.9 billion in State General Fund savings through expenditure reductions, special fund transfers, and borrowing in FY 2009-10. SBX3 17 proposed \$4.4 billion in revenue solutions, without raising taxes, including the acceleration of quarterly withholding, and the imposition of sales tax on internet sales. In his veto messages, the Governor indicated that he has made it clear that "...the Legislature must solve the entire deficit, must make the hard decisions now, and must not push the problem off to tomorrow."

### **Governor's Declaration of a State Fiscal Emergency**

As a result of the Legislature's failure to address the budget deficit, today, Governor Schwarzenegger announced that the deficit has increased to \$26.3 billion and he once again declared a State fiscal emergency. Attachment I is a copy of the Governor's Declaration calling the Legislature into a Proposition 58 Special Session to address the State's fiscal crisis. The Governor stated that California's fiscal crisis is the result of programmatic expansions over the past decades, and that the time is now to make real cuts to positively impact the State General Fund in future years. Under Proposition 58, the California Balanced Budget Act of 2004, the Legislature must enact legislation within 45 days to address the fiscal emergency, or it will be prohibited from acting on any other bills or adjourning in joint recess until such legislation is passed.

The Governor also announced that he will not sign any bills until the entire budget deficit has been resolved and he is imposing a third furlough day per month for State employees, effective July 10, 2009. Most state offices will now be closed the first three Fridays of the month.

In addition, this afternoon the Department of Finance (DOF) released a letter titled "July 1 Revision" to Assembly Budget Committee Chair, Noreen Evans and Senate Budget and Fiscal Review Committee Chair, Denise Ducheny with the Administration's proposed solutions to address the increased budget deficit. The proposed new solutions include: 1) \$425 million savings from a third furlough day for State employees;

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2) \$3 billion in savings from the suspension of the Proposition 98 minimum guarantee in FY 2009-10; and 3) \$1.4 billion in appropriation reductions to the UC and CSU systems in FY 2008-09. A copy of the DOF letter is included as Attachment II.

We will continue to keep you advised.

WTF:GK:  
DW/MR:IGEA:er

#### Attachments

c: All Department Heads  
Legislative Strategist  
Local 721  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities  
City Managers Associations  
Buddy Program Participants

**A PROCLAMATION**

**BY THE GOVERNOR OF THE STATE OF CALIFORNIA**

**WHEREAS** the global recession has caused California's revenues to continue to plummet, leaving our state with an unprecedented budget deficit that forces the State to take drastic actions to fix it that will affect every Californian; and

**WHEREAS** on November 6, 2008, and again on December 1, 2008, due to concerns regarding dramatically declining revenues and worsening economy, I issued a Special Session Proclamation and convened the Legislature of the State of California to meet in extraordinary session to address the fiscal crisis that California faces; and

**WHEREAS** on February 20, 2009, a revised state budget for fiscal year 2008-09 was adopted and a state budget for fiscal year 2009-10 was adopted; and

**WHEREAS** within a few weeks after the passage of these budgets, the global recession caused California's revenues to worsen even more, thus creating a new budget deficit of approximately \$15.4 billion for fiscal years 2008-09 and 2009-10; and

**WHEREAS** on May 20, 2009, after the failure of Propositions 1A through 1E, California faced a budget deficit of \$21.3 billion for fiscal years 2008-09 and 2009-10; and

**WHEREAS** California planned to borrow up to \$6 billion through Reimbursement Warrants (commonly referred to as "RAWs") to address part of the budget deficit, but this short-term borrowing is no longer an available option due to the recent decision of the federal government not to provide financial assistance or loan guarantees for this emergency, short-term borrowing; and

**WHEREAS** the state's inability to borrow through RAWs will result in more severe spending cuts in the state's programs and services; and

**WHEREAS** on May 22, 2009, the Legislative Analyst predicted that the Governor's May Revision revenue projections may prove overly optimistic, and instead, projected that the drop in revenues will be at least \$3 billion worse than projected putting the size of the state's shortfall at more than \$24 billion for fiscal years 2008-09 and 2009-10; and

**WHEREAS** the State Controller has determined that the State's \$2.8 billion cash shortage in July 2009 will grow to \$6.5 billion in September, and a double-digit freefall after September; and

**WHEREAS** the State Controller has determined that without effective action to address the budget and cash crisis, the State will have insufficient cash to meet its obligations starting July 2009 and will need to issue registered warrants (IOUs) in order to preserve cash and protect payments the State must make to fund education and repay outstanding debt; and

**WHEREAS** on June 30, 2009, the Legislature failed to take action to pass a revised budget for fiscal years 2008-09 and 2009-10 to effectively address the unprecedented statewide fiscal crisis, thereby requiring billions of dollars in additional solutions; and

**WHEREAS** immediate and comprehensive action is needed to address the revenue shortfall facing the State of California.

**NOW, THEREFORE, I, ARNOLD SCHWARZENEGGER**, Governor of the State of California, in accordance with Section 10(f) of Article IV of the Constitution of the State of California, **HEREBY DETERMINE** that General Fund revenues for Fiscal Years 2008-09 and 2009-10 will decline substantially below the estimate of General Fund revenues upon which the 2009 Budget Act was based.

**I, ARNOLD SCHWARZENEGGER**, Governor of the State of California, **HEREBY DECLARE** that a fiscal emergency exists.

**I, ARNOLD SCHWARZENEGGER**, Governor of the State of California, **HEREBY IDENTIFY THE NATURE OF THIS FISCAL EMERGENCY** to be the projected budget imbalance and insufficient cash reserves for Fiscal Year 2009-10 and the projected insufficient cash reserves and potential budgetary deficit in Fiscal Year 2010-11 which are anticipated to result from the dramatically lower than estimated General Fund revenues in Fiscal Years 2008-09 and 2009-10.

**FURTHER**, on this day, as required by Section 10(f) of Article IV of the Constitution of the State of California, I will cause the Legislature to assemble in special session to address this fiscal emergency, and I will submit to the Legislature proposed legislation to address this fiscal emergency.

**IN WITNESS WHEREOF** I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 1<sup>st</sup> day of July, 2009.

\_\_\_\_\_  
ARNOLD SCHWARZENEGGER  
Governor of California

**ATTEST:**

\_\_\_\_\_  
DEBRA BOWEN  
Secretary of State



**DEPARTMENT OF  
FINANCE**  
OFFICE OF THE DIRECTOR

ARNOLD SCHWARZENEGGER, GOVERNOR  
STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

July 1, 2009

Honorable Denise Moreno Ducheny, Chair  
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Noreen Evans, Chair  
Assembly Budget Committee

Attention: Mr. Christian Griffith, Chief Consultant (2)

### July 1 Revision

With the beginning of the new fiscal year, recognizing the failure to enact certain May Revision proposed solutions, the size of the state budget shortfall has increased from \$24.3 billion to \$26.3 billion, and \$3.3 billion of solutions included in the May Revision are now lost. New solutions in addition to those included in the May Revision are now being proposed as displayed in the table below.

#### Changes in Reserve Since May Revision (Dollars in Millions)

May Revision Reserve for June 30, 2010		\$4,516
Lower Revenue		-3,000
Rejection of May Revision Solutions:		-5,313
RDA Shift (SB 80)	-350	
Prop 98 2008-09 Solutions not Adopted	-1,617	
Increase in 2009-10 Prop 98 Due to 2008-09 Solutions not Adopted	-1,622	
UC and CSU 2008-09 Solutions not Adopted	-1,435	
Erosion of Cal Grant Solutions	-289	
New Solutions:		4,882
Third day of Furloughs	425	
Prop 98 Suspension in 2009-10	3,022	
Retroactive enactment of May Revision 2008- 09 UC and CSU	1,435	
July Revision Reserve		<u>\$1,085</u>

The three new solutions proposed in the July Revision to restore balance to the Budget are as follows:

- Increase \$425 million proposed in Control Section 3.90 for reductions to various items of appropriations for employee compensation to capture the additional savings that will result from a third day of furloughs pursuant to Executive Order S-13-09.
- Suspend Proposition 98 and fund at \$3.0 billion below the new minimum guarantee, for a total General Fund appropriation of \$34.6 billion, which is \$1.4 billion below the level proposed in the May Revision.
- Request that UC and CSU recognize the \$1.4 billion (\$717.5 million each) in intended reductions for the 2008-09 fiscal year. The segments will revert these 2008-09 funds to the General Fund upon passage of legislation that reduces the appropriations accordingly. Legislation must be enacted in July, well before UC and CSU are legally required to close their books.

In addition, the July Revision acknowledges a \$3 billion reduction in revenue based on cash receipts for May and June. The May Revision anticipated the possibility of this revenue reduction and accounted for it by proposing a larger reserve, \$4.5 billion. With the revenue reduction now explicitly scheduled in the July Revision, the reserve can be reduced to \$1.1 billion.

It should be noted, however, that in addition to the loss of the education-related solutions acknowledged above, many of the other solutions proposed in the May Revision need to be enacted early in July in order to prevent the erosion of their value by several hundred million dollars. Thus, further delay in enacting budget solutions will necessitate additional program reductions.

If you have any questions or need additional information regarding this matter, please contact me at (916) 445-4141.

Sincerely,

/s/ Michael C. Genest

MICHAEL C. GENEST  
Director

cc: Honorable Christine Kehoe, Chair, Senate Appropriations Committee  
Attention: Mr. Bob Franzoia, Staff Director  
Honorable Bob Dutton, Vice Chair, Senate Budget and Fiscal Review Committee  
Attention: Mr. Seren Taylor, Staff Director  
Honorable Kevin de Leon, Chair, Assembly Appropriations Committee  
Attention: Mr. Geoff Long, Chief Consultant  
Honorable Roger Niello, Vice Chair, Assembly Budget Committee  
Attention: Mr. Peter Schaafsma, Staff Director  
Mr. Mac Taylor, Legislative Analyst (4)  
Mr. Craig Cornett, Senate President pro Tempore's Office  
Mr. Christopher W. Woods, Assembly Speaker's Office (2)  
Ms. Christine Robertson, Chief of Staff, Assembly Republican Leader's Office